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SUBJ: COMMERCE AND INVESTMENT MINISTRIES REQUEST UNDERSTANDING AND ACCESS TO U.S. MARKETS

**¶1.** (SBU) Summary: In separate meetings June 29 and 30 with NSC Senior Director for International Economic Affairs David Lipton, Treasury Deputy Assistant Secretary Robert Dohner, and SRAP Senior Economic Advisor Mary Beth Goodman, GOP Secretary Commerce Suleiman Ghani and Secretary Investment Tariq Puri pushed for increased market access to U.S. and EU markets in order to offset disadvantages imposed by the threat of terrorism in Pakistan. Puri said the GOP would prepare a letter outlining Pakistan's desire to re-start discussions of a bilateral investment treaty (BIT) soon, while Ghani suggested discussing Pakistan's wish to be re-classified as a less-developed country (LDC) at the Joint Study Group proposed at the Trade and Investment Framework Agreement talks (TIFA) in May. Ghani also committed to speedy GOP review of an Afghan request to expedite the transit of Afghan fruit. End Summary.

**¶2.** (SBU) Secretary Commerce Suleiman Ghani told NSC Senior Director for International Economic Affairs David Lipton, Treasury Deputy Assistant Secretary Robert Dohner, and SRAP Senior Economic Advisor Mary Beth Goodman, that Pakistan needed not only to diversify its trade - which focuses largely on low- to-middle end markets - but must also recalibrate its direction: only 5-6 percent of Pakistan's trade is within the region (including China); the remainder is destined for the U.S. and European markets. The three-year trade policy currently under preparation will focus on increasing regional trade and making industry more competitive, in particular focusing on more value-added exports. The GOP will focus on technology upgrades rather than cash incentives for business. Rationalizing Pakistan's protectionist tariff regimes and emphasizing institutional capacity building are also priorities.

**¶3.** (SBU) Ghani lamented the fact that Pakistan was the only country in the region not currently benefiting from either less developed country (LDC) preferences or a free trade agreement (FTA) with the U.S. He suggested the U.S. and Europe should help Pakistan "level the playing field" in trade to offset the disadvantage terrorism imposed on Pakistan's economy. Ghani said that the Joint Study Group Pakistan agreed to establish at the Trade and Investment Framework Agreement (TIFA) talks in May might be a venue to discuss re-categorizing Pakistan as a less developed country (LDC) as a first step.

**¶4.** (SBU) Secretary Investment Tariq Puri on June 30 called energy and security the two biggest challenges facing foreign and domestic investors alike. Echoing Ghani's earlier comments, Puri said Pakistan needs help - in particular increased market access - from its main trade partners, the U.S. and the EU. A change in EU access regulations in 2005 made Pakistan the only country in the region

without preferential access to EU markets. Puri said that assistance money is necessary in the short term, but increased trade will spur production and increase employment - and more jobs means less militancy. Puri also lamented the current war in the NWFP is deterring investment, particularly in the textile sector.

¶15. (SBU) Lipton responded that market access in and of itself is not the answer: Pakistan also has an obligation to undertake necessary reforms that would encourage investment and development at home. While he agreed that energy is a particularly acute challenge, Lipton said the GOP could not realistically get more power out of the system without raising tariffs.

¶16. (SBU) Puri said that the GOP is ready to discuss a bilateral investment treaty (BIT) "at any time." He promised to send a letter, coordinated across the GOP, expressing Pakistan's willingness to resume discussions and indicated the GOP is looking at ways to address arbitration even outside of a BIT framework. Legislation to establish special economic zones (SEZ) is also being prepared with the goal of providing a one-window operation for foreign investors and connecting them as required to necessary infrastructure and utilities.

¶17. (SBU) Comment: Ghani seems inclined to nudge the GOP into complying with the Afghan request to expedite transshipment of Afghan fruit in a timely manner; whether he can get the sluggish bureaucracy in train in time is another matter, but Post is following up with the GOP to maintain the pressure. GOP "interest" in re-starting talks on a BIT is not new, and the truth of the Ministry's intentions will be in whether Puri can produce the coordinated GOP position necessary to get any talks back on track.

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The joint USAID-GOP Competitiveness Support Fund (CSF) is working closely with the Investment Ministry in developing both the arbitration and SEZ legislation, which we hope will bear fruit in coming months. End Comment.